International Monetary Fund (IMF): Origin, Objectives and Functions

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Let us make an in-depth study of the origin, objectives and functions of International Monetary Fund (IMF).

Origin of IMF:

The origin of the IMF goes back to the days of international chaos of the 1930s. During the Second World War, plans for the construction of an international institution for the establishment of monetary order were taken up.

At the Bretton Woods Conference held in July 1944, delegates from 44 non-communist countries negotiated an agreement on the structure and operation of the international monetary system.

The Articles of Agreement of the IMF provided the basis of the international monetary system. The IMF commenced financial operations on 1 March 1947, though it came into official existence on 27 December 1945, when 29 countries signed its Articles of Agreement (its charter). Today (May 2012), the IMF has near-global membership of 188 member countries. Virtually, the entire world belongs to the IMF. India is one of the founder- members of the Fund.

Objectives:

Article 1 of the Articles of Agreement (AGA) spell out 6 purposes for which the IMF was set up.

These are:

I. To promote international monetary cooperation through a permanent institution which provides the machinery for consolation and collaboration on international monetary problems.

II. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objective of economic policy.

III. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

IV. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

V. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments, without resorting to measures destructive of national or international prosperity.

VI. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

All these objectives of the IMF may be summarised:

To promote international cooperation; to facilitate the expansion and balanced growth of international trade; to promote exchange stability; to assist in the establishment of a multilateral system of payments; to make its general resources available to its members experiencing balance of payments difficulties under adequate safeguards; and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

Functions:

The principal function of the IMF is to supervise the international monetary system. Several functions are derived from this. These are: granting of credit to member countries in the midst of temporary balance of payments deficits, surveillance over the monetary and exchange rate policy of member countries, issuing policy recommendations. It is to be noted that all these functions of the IMF may be combined into three.

These are: regulatory, financial, and consultative functions:

Regulatory Function:

The Fund functions as the guardian of a code of rules set by its (AOA— Articles of Agreement).

Financial Function:

It functions as an agency of providing resources to meet short term and medium term BOP disequilibrium faced by the member countries.

Consultative Function:

It functions as a centre for international cooperation and a source of counsel and technical assistance to its members.

The main function of the IMF is to provide temporary financial support to its members so that 'fundamental' BOP disequilibrium can be corrected. However, such granting of credit is subject to strict conditionality. The conditionality is a direct consequence of the IMF's surveillance function over the exchange rate policies or adjustment process of members.

The main conditionality clause is the introduction of structural reforms. Low income countries drew attraction of the IMF in the early years of 1980s when many of them faced terrible BOP difficulties and severe debt repayment problems. Against this backdrop, the Fund took up 'stabilisation programme' as well as 'structural adjustment programme'. Stabilisation programme is a demand management issue, while structural programme concentrates on supply management. The IMF insists member countries to implement these programmes to tackle macroeconomic instability.

Its main elements are:

(i) Application of the principles of market economy;

(ii) Opening up of the economy by removing all barriers of trade; and

(iii) Prevention of deflation.

The Fund provides financial assistance. It includes credits and loans to member countries with balance of payments problems to support policies of adjustment and reform. It makes its financial resources available to member countries through a variety of financial facilities.

It also provides concessional assistance under its poverty reduction and growth facility and debt relief initiatives. It provides fund to combat money- laundering and terrorism in view of the attack on the World Trade Centre of the USA on 11 September 2001.

In addition, technical assistance is also given by the Fund. Technical assistance consists of expertise and support provided by the IMF to its members in several broad areas : the design and implementation of fiscal and monetary policy; institution-building, the handling and accounting of transactions with the IMF; the collection and retirement of statistical data and training of officials.

Maintenance of stable exchange rate is another important function of the IMF. It prohibits multiple exchange rates.

It is to be remembered that unlike the World Bank, the IMF is not a development agency. Instead of providing development aid, it provides financial support to tide over BOP difficulties to its members.

Organisation and Management of the IMF:

Like many international organisations, the IMF is run by a Board of Governors, an Executive Board and an international staff. Every member country delegates a representative (usually heads of central banks or ministers of finance) to the Board of Governors—the top link of the chain of command. It meets once a year and takes decision on fundamental matters such as electing new members or changing quotas.

The Executive Board is entrusted to the management of day-to-day policy decisions. The Board comprises 24 executive directors who supervise the implementation of policies set by the member governments through the Board of Governors.

The IMF is headed by the Managing Director who is elected by the Executive Board for a 5 year term of office.

Rights and obligations, i.e., the balance of Powers in the Fund is determined by a system of quotas. Quotas are decided by a vote of the Board of Governors. Quotas or subscriptions roughly reflect the importance of members in the world economy. It is the quota on which payment obligation, credit facilities, and voting rights of members are determined.

Financial Structure of the IMF:

The capital or the resources of the Fund come from two sources:

(i) Subscription or quota of the member nations, and

(ii) Borrowings.

Each member country is required to subscribe an amount equivalent to its quota. It is the quota on which payment obligations, credit facilities, and voting right of members are determined. As soon as a country joins the Fund, it is assigned a quota which is expressed in Special Drawing Rights (SDRs). At the time of formation of the IMF, the quota of each member was made up of 25 p.c. in gold or 10 p.c. of its net official holdings of gold and US dollars (whichever was less). Now this has been revised.

The capital subscriptions or quota is now made up of 25 p.c. of its quota in SDRs or widely accepted currencies (such as the US dollar, euro, the yen or the pound sterling) instead of gold and 75 p.c. in country's own currency. The size of the Fund equals the sum of the subscriptions of members. Total quotas at the end-August 2008 were SDR 217.4 billion (about $341 billion).

The Fund is authorised to borrow in special circumstances if its own resources prove to be insufficient. It sells gold to member countries to replenish currency holdings. It is entitled to borrow even from international capital market. Though the Articles of Agreement permit the Fund to borrow from the private capital market, till today no such use has been made by the IMF.

Special Drawing Rights (SDRs):

The Special Drawing Rights (SDRs) as an international reserve asset or reserve money in the international monetary system was established in 1969 with the objective of alleviating the problem of international liquidity. The IMF has two accounts of operation—the General Account and the Special Drawing Account.

The former account uses national currencies to conduct all business of the fund, while the second account is transacted by the SDRs. The SDR is defined as a composite of five currencies—the Dollar, Mark, Franc, Yen and Pound. The SDRs are allocated to the member countries in proportion to their quota subscriptions. Only the IMF members can participate in SDR facility.

SDRs being costless, often called paper gold, is just a book entry in the Special Drawing Account of the IMF. Whenever such paper gold is allocated, it gets a credit entry in the name of the participating countries in the said account. It is to be noted that SDRs, once allocated to a member, are owned by it and operated by it to overcome BOP deficits. Since its inception, there have been only four allocation to SDRs—the first in 1970, and the last in 2008-09—mainly to the developing countries.

Instruments of IMF Lending and Loan Conditionality:

The IMF Articles of Agreement clearly state that the resources of the Fund are to be used to give temporary assistance to members in financing BOP deficit on current account. Of course, the financial assistance provided by the Fund is loan. The following technique is employed: If a country calls on the Fund it buys foreign currencies from the IMF in return for the equivalent in the domestic currency.

This, in legal and technical terms, is called a 'drawing' on the Fund. The technique, therefore, suggests that the IMF does not lend, but sells the required currency to the members on certain terms. This unique financial structure of the Fund clearly suggests that the Fund's resources cannot be lent for long time. It is meant to cover short run gaps in BOP.

The IMF's unique financial structure does not allow any member to enjoy financial assistance over a long time period. The total amount that a country is entitled to draw is determined by the amount of its quota. A member is entitled to draw an amount not exceeding 25 p.c. of its quota. The first 25 p.c. called the 'gold tranche' ('tranche' a French Word meaning slice) or 'reserve tranche' can easily be drawn by countries with BOP problems.

This 25 p.c. of the quota is the members' owned reserves and therefore no conditions are attached to such drawings. This may be called 'ordinary, drawing rights; even the Fund cannot deny its use. However, no interest for the first credit tranche is required to be paid though such drawings are subject to repayment within 3-5 years period.

The 'credit tranche' of 100 p.c. each equalling 25 p.c. of a member's quota are also available subject to the IMF approval and hence, 'conditional'.

Originally, it was possible to borrow equal to 125 p.c. of one's quota. At present, borrowing limit has been raised to 450 p.c. of one's quota which must be redeemed within five years.

Borrowing methods used by the Fund are:

(i) Stand-by Arrangements:

This method of borrowing has become the most normal form of assistance by the Fund. Under this form of borrowing, a member state obtains the assurance of the Fund that, usually over 12-18 months, requests for drawings of foreign exchange (i.e., to meet short- term BOP problems) up to a certain amount will be allowed if the country concerned wishes.

However, the stand-by arrangements can be extended up to 3 years while repayments are required to be made within 3-5 years of each drawing. The term "stand-by" here means that, subject to conditionality, a member has a right to draw the money made available, if needed. In most cases, the member does, in fact, draw.

(ii) Extended Fund Facility (EFF):

Stand-by arrangements to stabilise a member's BOP run usually for a period of 12-18 months. Developing countries suffer from chronic BOP problems which could not be remedied in the short run. Such protracted BOP difficulties experienced by the LDCs were the result of structural imbalances in production and trade. It then necessitated an adjustment programme and redemption scheme of longer duration.

In the 1970s, the Fund recognised this idea and built up the EFF in 1974. The EFF is designed to provide assistance to members to meet their BOP deficits for longer period (3-4 years) and in amounts larger in relation to their quotas. Repayment provisions of EFF cover a period of 4-10 years. However, conditions for granting loans are very stringent. Drawings on this account since 2000 stand at over 50 billion dollar in SDRs.

(iii) Compensatory Financing Facility (CFF):

Apart from the ordinary drawing rights, there are some 'special finances' windows to assist the developing countries to tide over BOP difficulties. CFF, introduced in 1963, is one such special drawing provision. Its name was changed to Compensatory and Contingency Financing Facility (CCFF) in 1980, but the 'contingency' was dropped in

2000. Under it, members were allowed to draw up to 25 p.c. of its quota when CFF was introduced.

It can now draw up to 45 p.c. Since the mid- 1990s, this has been the least-used facility.

(iv) Structural Adjustment Facility (SAF) and the Enhanced SAF (ESAF):

In 1986 a new facility—the SAF—was introduced for the benefit of low income countries. It was increasingly realised that the so-called stringent and inflexible credit arrangements were too inadequate to cope with the growing debt problems of the poorest members of the Fund. In view of this, SAF was introduced which stood quite apart from the monetary character of the Fund.

Under it, credit facilities for economic reform programmes are available at a low interest rate of 0.5 p. c compared to 6 p.c. for most Fund facilities. Loans are for 10 years with a grace period of five and a half years. LDCs facing protracted BOP problems can get assistance under SAF provided they agree to undertake medium-term structural adjustment programmes to foster economic growth and improve BOP conditions. An extended version of SAF—ESAF—was introduced in 1987. The ESAF has been replaced by a new facility, called Poverty Reduction and Growth Facility in 1999.

What emerges from the structural adjustment facility is that the IMF's loan is now available to member countries in support of policy programmes. It now insists on the supply side policy 'as a condition' for assistance, in addition to loans meant for short-term BOP difficulties.

(v) Poverty Reduction and Growth Facility (PRGF):

The PRGF that replaced the ESAF in November 1999 provides concessional lending to help the poorest member countries with the aim of making poverty reduction and economic growth —the central objectives of policy programmes. Under this facility, low-income member countries are eligible to borrow up to 140 p.c. of its quota for a 3-year period. Rate of interest that is charged is only 0.5 p. c and repayment period covers 5 1/2-10 years, after disbursement of such facility. However, financial assistance under this facility is, of course, 'conditional'.

(vi) Supplemental Reserve Facility (SRF):

This instrument provides additional short-term financing to member countries facing exceptional BOP difficulties because of a sudden and disruptive loss of market confidence reflected in capital outflows of countries concerned. Consequent upon the eruption of East Asian financial crisis, the SRF was introduced in 1997.

Till date (March, 2012), the top three largest borrowing nations are Greece, Portugal and Ireland from the IMF.

Strings of Conditionality:

It is to be remembered here that the IMF lending is conditional. Further, the IMF lending is temporary ranging from 1 year to 3 years. Repayment period varies from country to country and from one facility to another. Repayment under PRGF for low income countries is 10 years with a 5 1/2 year grace period on principal payments.

The IMF may be viewed as both a financing and an adjustment-oriented international institution for the benefit of its members. The distinguishing features of the Fund loans are their cost and certain macroeconomic policy conditions. These conditionality requirements range from rather general commitments to cooperate with the IMF in setting policies to formulating a specific, quantified plan for monetary, trade, and fiscal policies.

The IMF practice of tying loans to conditions reflects the dominant influence of the capitalist world. The strings of conditionality's as well as the policy of sanctions that came to the fore in the early 1960s made this international organisation the most controversial institution. This is because of the fact that the conditions set by the Fund cannot constitute a standard solution for deficit countries to the Fund's finances. By attaching conditions to credit facilities, the Fund has assumed the role of a 'neo-colonist'. Some say that the IMF has been acting as 'a rubber stamp for the desires of the US administration'.

The conditionality is always intended to restore internal and external balance and price stability. While formulating specific performance criteria (often referred to as 'conditional loans' that is, 'at the point of a gun'), the Fund prepares 'stabilisation' programme and 'adjustment' programme which member states will be required to adopt to tackle macroeconomic instability.

The programme design involves monetary and fiscal policy measures so that structural adjustment (i.e., reforms aimed at changing the structure of both production and consumption) takes place. Stabilisation is generally regarded as a precondition of structural adjustment policies'.

Thus, stabilisation and structural programmes not only includes monetary and fiscal policies but also exchange rate policy (i.e., devaluation), liberalisation or deregulation, privatisation, reforming institutions to carry governments' new role, freeing markets to determine prices, reforming the labour sector. Almost all stabilisation programmes intend to curb effective demand.

Working of the IMF:

There are two phases in the working of the IMF over the last 65 years. The first phase covers the period late 1940s (i.e., 1947) to 1971. This phase is popularly known as the 'Bretton Woods System'. The IMF system or the Bretton Woods System provides for exchange rate stability in the short run but allowed for the possibility of exchange rate adjustment when a country experienced 'fundamental' disequilibrium in its BOP accounts. Thus, the pegged exchange rate was adjusted in accordance with the IMF. Hence the name 'adjustable peg system'.

As the system was the source of some major problems, it was abandoned in 1971 and more flexibility was introduced in the monetary system. In other words, the demise of the Bretton Woods System made room for the floating exchange rate regime, requiring changes in the role of the IMF. After prolonged negotiations (1973-78), the IMF started its second-leg journey in 1978.

The decade of the 1970s saw massive borrowing by the developing countries. It rose to $600 billion by 1982. Meanwhile, the rise in interest rates in the USA from 1979 and the appreciation of dollar caused tremendous difficulties to the developing countries in servicing their debts. On the other hand, the switch to the floating exchange rate system coincided with the deteriorating economic conditions in the industrialised countries.

Debt crisis that emerged in many developing countries had a dramatic effect. Mexico a Latin American country announced its failure to honour debt obligations. The IMF now played a crucial role to put the international financial system in order. It came in for mobilisation of additional financial resources so as to reduce the debt burden. As a result of this and other related measures, many countries regained access to the international banks and creditors and the severity of the debt problem moderated considerably in Latin America in the early 1990s.

With the breakup of the Soviet Union in 1989, a new category of countries, especially the erstwhile communist countries, joined the IMF. The IMF now came forward to assist countries undergoing transition from a centrally planned economy to a market-oriented economy. Privatisation is indeed a crucial element of the transition process. That is why the IMF is providing financial assistance and technical support for the development of sound economic management and the privatisation of state enterprises.

In 1997, the East Asian financial crisis began when the currencies of the 'Asian tiger' economies (South Korea, Singapore, Hong Kong, Taiwan) plummeted, and the stock market crashed. Rescue packages were launched by the IMF under strong authority conditions.

Achievements:

From this balance sheet of the working of the IMF, we are now in a position to evaluate its performance over the last 65 years or so. First, we state the achievements of the Fund.

The IMF acts both as a financing and an adjustment-oriented international institution for the benefit of its members It has been providing financial assistance to the deficit countries to meet their temporary disequilibrium in BOP.

The Fund aims at promoting exchange rate stability. In its early phase, the Fund made arrangements of avoidance of competitive exchange depreciation.

It has made an attempt to solve the problem of international liquidity. To create international liquidity. Special Drawing Rights (SDRs)—an artificial currency—were created in 1969 as foreign exchange reserves to benefit the developing countries in particular. SDR allocations are made to member countries to finance the BOP deficits.

It is an institution through which consultation in monetary affairs takes place in an on-going way. It acts as a forum for discussions of the economic, fiscal and financial policies of member countries, keeping the BOP problems in mind. Previously, the poorest developing countries did not receive adequate treatment from the Fund. But from 1980s onwards—when the debt crisis broke out in poor countries—the Fund decided to divert its financial resources to these countries.

In 1980s, centrally planned economies were not hitherto members of the Fund. With the collapse of the Soviet Union in 1989, ex-communist countries became members of the Fund and the Fund is providing assistance to these countries so as to instill, the principles of market economy. It has decided to finance resources to combat terrorism and money-laundering.

Finally, the IMF has assisted its members in the formulation of appropriate monetary, fiscal, and trade policies.

Failures:

Despite these achievements, its failures are glaring. In other words, its success is, on the whole, limited. There are some serious charges against this institution that cannot escape attention.

These are:

The Fund provides short-term finance to its members to tackle BOP disequilibrium. For this purpose, it adopted an adjustable peg system in the first phase of its life. But it failed to establish a stable exchange rate. Its role in controlling the competitive exchange depreciation policies adopted by the members was subject to serious scrutiny, although it was created to avoid devaluation as a BOP measure as much as possible.

Truly speaking, the IMF is incapable of taking independent policy decisions. It complies with the 'order' of the superpowers. Further, it has minimal influence over the policy decisions of the major industrial powers. In these cases, its mandate to exercise 'firm surveillance' over some influential members or superpowers is virtually meaningless—it has no influence over the US deficits or European interest rates.

Secondly, the Fund imposes conditions on the poor countries while sanctioning loans. Now, it is ignoring its central concern—exchange rate management and the BOP problems. It is now championing the issue of 'market principle'. It suggests poor developing countries to cut expenditure-borrowing-subsidy, raise prices of state enterprises, privatisation of state-owned enterprises, etc. If such measures—most popularly known as structural adjustment programmes—are adopted only then the IMF credit would follow. It is said that the third world debt crisis is due to the Fund policies and working.

Thirdly, the Fund has failed to eliminate foreign exchange restrictions imposed by its members that hamper the growth of trade.

In view of these, the developing countries are blaming the IMF for their economic malaise. It is said that the IMF has outlived its mission and the time has come for it to go into oblivion. Sixty- five years is long enough!

Role of IMF in Economic Development of LDCs:

Being a central institution of international monetary system, the IMF works for global prosperity by promoting a balanced expansion of world trade. The IMF not only operates as a BOP adjustment institution but also a BOP financing institution.

The IMF system provides for exchange rate stability in the short run but allows for exchange rate adjustment if a country faces 'fundamental' disequilibrium in its BOP accounts. Hence the name 'adjustable peg system' that lasted till 1971 since its birth. Till the mid-60s of the 20th century, some progress had been achieved in the direction of international cooperation and compliance with the Fund's Articles of Agreement.

Continuous drop in its gold reserves and chronic BOP deficits resulting in a crisis of confidence of dollar forced the USA to abandon the convertibility of dollars into gold in 1971. This is called breakdown of the Bretton Woods System that seriously raised questions about the role of the IMF in the provisioning of international finance. Floating exchange rate system thus introduced caused severe hardships to the LDCs. Meanwhile, many LDCs faced serious BOP deficits because of a world recession, the first oil shock in the form of ricocheting fuel prices, and a falling exports of LDCs.

Earlier, that is before 1971, the bulk of the Fund's resources was used to maintain the value of currencies of the developed world. The Fund had been also marginalised by the actions of the G-7 and regional trading blocks. However, with the change in the exchange rate system, the role of the IMF also underwent a change.

It shifted its focus of attention to the developing countries in the late 1970s. In the 1980s, it became more generous in providing resources to the countries in difficulty. Since then, both the IMF and the World Bank have been helping ex-communist countries to build a market economy, though the IMF was created primarily as an institution for the promotion of international monetary stability. The founding fathers of the Fund expected that it would poke its nose in the affairs of the LDCs and, lately, of the former communist countries.

Today, the Fund is being labelled as an 'anti- developmental' institution, as far as structural adjustment lending is concerned. The IMF now serves the needs of global finance instead of the needs of global stability. The use of conditionality and the direct 'surveillance' on macroeconomic policy by the Fund is suggestive of increasing involvement in the LDCs' development process.

Drawings from the EFF, SRF, PRGF, etc., are available if the member countries agree to a stabilisation programme. The IMF focuses mainly on a country's macroeconomic stability as well as structural adjustment programme that influences its macroeconomic performance. Conditionality's are attached when member countries opt for drawings from the above noted sources of the Fund.

Structural adjustment programmes (that includes not only stabilisation programmes associated with monetary and fiscal policy measures, but also trade liberalisation, privatisation, globalisation, freeing markets to determine prices, reforming institutions, to carry government's new role, and so on) are said to be preconditions for securing Bank-Fund loans. Its adverse impacts on the LDCs are varied and numerous.

First, SAP was justified as necessary to the LDC world as it would enable them to repay their debt to banks of advanced countries. By the late 1980s, more than 70 LDCs had to swallow the SAP medicine. But its impact on growth of these countries was negative. As many as 77 p.c. of countries saw the most significant decline in their per capita incomes. In Latin America, during the 1960s and 1970s, income grew by 75 p.c. when these economies were relatively closed, but during the 1980s, income grew by 61 p.c. only. Average incomes in sub-Saharan Africa actually contracted.

Latest research data (2006) for 98 countries during 1970-2000 revealed a negative impact of the IMF programmes on the per capita income growth of 1.7 p.c. p.a. Another study (1991) of 40 countries showed negligible growth in GDP, marginal increase in export growth and the BOP situation and a decline in investment. The IMF aims at tackling BOP disequilibrium but does little to learn the root causes of such disequilibrium.

Secondly, the costs of adjusting to greater openness of the LDC economy are shouldered mainly by the poor. The Fund recommends privatisation so as to offset government failure. It is said that the government-run enterprises are inefficient. Bureaucracies are corrupt. Thus by 'freeing the markets', competitive efficiency could be improved. But the costs of such adjustment programmes are expensive. Indeed, globalisation has triggered both poverty and inequality. Today's world see the **"billionaires of capitalists"** and the exponential growth of poverty-stricken, malnourished people.

In compliance with the IMF demand, in Argentina during 1976-87, employment in public administration was down by 11.5 p.c. and in State enterprises by 18.9 p.c. In India, during the stabilisation period 1991-99, growth rates in employment in the organised sector declined form 1.44 p.c. to 0.84 p.c. and further to -0.31 p.c. during 1994-2006. The inevitable consequence of this is the rise in the number of unemployed and poor people. **"In the eyes of some, the acronym IMF stands for (I)inflation, (M)isery and (F)amine!"** (A.P Thirlwall).

Again, the IMF introduced economic shock therapy measures in command economies. All these comprised the introduction of capitalism in Russia and other former Soviet-bloc countries and hence a shift from the state-led development to market-led development.

Thirdly, Joseph Stiglitz has accused the IMF of promoting an agenda of 'market fundamentalism' thereby injuring the country's social fabric. The Fund emphasises fiscal discipline—cuts in government expenditures and subsidies—so as to pursue a free market economy philosophy. But because of cuts in government expenditures and various subsidies on basic necessities and a rise in the price of public services, vulnerable people bore the major brunt.

Following cuts in subsidies on food products, milk prices in Chile went up by 400 p.c., bread by 367 p.c., potatoes by 850 p.c. and carrot by 1.589 p.c. in 1975—the average rate of inflation there was 340 p.c. Many LDCs saw their indicators of standard of living—infant mortality, life expectancy, adult literacy, primary school enrolment, per capita calorie supply, etc. — falling to an unimaginable proportion. The Fund is unresponsive to **"adjustment with a human face".**

Fourthly, structural adjustment conditionality is often criticised for the third world debt crisis. Borrowing-dependent third world countries in the 1970s and 1980s went for private commercial bank loans—thereby causing accumulation of external debt and ballooning of debt service payments. Faced with this crisis, many of the LDC countries approached the IMF for borrowing to avert the risk of default.

It then invented the structural adjustment lending, provided conditionality's imposed by the Fund-World Bank are respected by the borrowing nations. This debt burden also caused severe BOP crises in many countries. The Fund- Bank do not find incentives to close exchange gap; rather they decapitalise LDCs.

Finally, the Fund often brings political and social unrest. Many of the policy measures suggested by the Fund (e.g., subsidy cut, labour retrenchment, golden handshake, etc.) caused widespread strikes, riots, etc., in many countries. Actually, finding no other alternatives, these countries had to swallow the bitter painful SAP medicine.

One author has remarked that the Fund has overthrown more governments than the military'! Social unrest consequent upon strict conditionality's brought more chaos, rather than solution. Argentina faced military takeover in 1976, Brazil in 1964, Chile and Uruguary in 1973, Turkey in 1960, 1971, and 1980. Military coups do not deserve the name 'stabilisation' and 'structural adjustment', in any case!